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UNCLAS SECTION 01 OF 02 PRETORIA 004193

SIPDIS

SENSITIVE

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SUBJECT: TELECOM LIBERALIZATION GOES RURAL

REFTEL A) PRETORIA 4027

B) PRETORIA 4028

1. (SBU) SUMMARY. South Africa Minister of Communications Ivy Matsepe-Casaburri has approved four under-serviced area licenses (USALs) three years after the government first announced its strategy to promote telecommunication services in rural areas and include black entrepreneurs in a traditionally high-cost industry. USAL bidders complain that the Independent Communications Authority of South Africa (ICASA) remains their biggest obstacle. Nonetheless, there is reason to expect that ICASA will issue the rest of the USAL licenses shortly. Industry observers expect Casaburri to provide further clarification on the next phase of USALs in October. END SUMMARY.

2. (U) In June, South Africa Minister of Communications Ivy Matsepe-Casaburri approved several under-serviced area licenses (USALs) to promote telecommunications services in areas where less than 5 percent of the population has access to a fixed-line telephone. The USAL operators will be confined to limited geographical regions, but will be allowed to offer an unrestricted range of voice and data services. The announcement comes nearly three years after government first introduced the concept of USALs as part of a broad policy to bridge the digital divide among South Africa's poor.

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USALs PROMOTE BEE  
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3. (SBU) The Minister is awarding the USALs to black-owned consortiums in line with Government's black economic empowerment (BEE) policy. BEE seeks to transform South Africa's economy by providing increased economic opportunities for historically disadvantaged individuals (HDI). During the first round of the USAL process, fifteen applicants competed for ten licenses. Casaburri approved licenses for Bokone Telecomms (Limpopo, Capricorn District); Thinta Thinta Telecoms (KwaZulu-Natal, Ugu District); Kingdom Communications (KZN, Zululand District; and Ilizwe Telecoms (Eastern Cape, OR Tambo Municipality. She referred another three back to the Independent Communications Authority of South Africa (ICASA) for resolution of shareholder issues. ICASA must now issue the licenses that were awarded by the Minister. ICASA Manager for Telecommunications Licensing Phineas Moleele told Econoff that he hopes to finish negotiations with the operators in time to issue the licenses by the end of September. A total of 27 USAL licenses will eventually be awarded.

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CHALLENGES FOR USAL BIDDERS  
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4. (SBU) In separate conversations, Kingdom CEO Sifiso Mbatha and Thinta Thinta CEO Bule Mhlono shared their concerns and business strategies with Econoff. Both CEOs of these BEE companies said that ICASA has been their biggest obstacle. Mbatha said that the regulator's lack of capacity and preoccupation with the Second National Operator caused delays that have sapped Kingdom's limited financial resources and facilitated increased market-share for incumbent operators. Mhlono also said that the delays are making it increasingly more difficult to secure additional financing for her efforts. She said that investor reticence to provide open-ended financing and lender stipulations requiring Kingdom to supplement loans with a portion of its own money are threatening Kingdom's financial viability. The CEOs also cite the difficulty in negotiating favorable interconnection fees with South Africa's national cellular operators as a critical factor affecting their profitability.

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REASONS FOR OPTIMISM  
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15. (SBU) Nevertheless, Mbatha and Mhlongo remain optimistic. They expressed confidence that their business models focusing on mobile and data services would pay off in the rural areas. They say that local communities are rallying behind them. Mbatha says locals have purchased over 600,000 shares in Kingdom, generating nearly R400,000 (about \$62,000). In addition, each USAL licensee will receive R15 million over the next three years from the government's Universal Service Area (USA) fund. Mhlongo and Mbatha also said that the Industrial Development Corporation (IDC) of South Africa may provide financing without the strings required by other lenders. Mhlongo also pointed out that the national carriers are not yet meeting universal service obligations required by their current licenses. She said national carriers see contracts with USALs to service their existing customers and lines as a way to fulfill universal service obligations. Mhlongo sees this as a way to generate both revenue and leverage in her interconnection negotiations with the existing phone companies. For their part, phone companies see opportunities to increase profits through roaming fees charged to USAL subscribers.

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COMMENT  
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16. (SBU) Recent announcements at Transnet and the Department of Communications regarding restructuring and telecom liberalization, respectively, suggest Cabinet level officials are increasing pressure to bring about change more quickly (Refs A, B). This bodes well for companies awaiting USAL licenses from ICASA. Industry observers expect the Minister of Communications Ivy Matsepe-Casaburri to provide clarification on the next phase of the USAL process in October.

FRAZER